



MARCH, 1944

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Draft to Cut Further Into Farm Labor

Needs of Armed Forces Require Re-Examination of Deferments

Occupational deferments are undergoing re-examination as a result of the tightening of Selective Service requirements for additional manpower. President Roosevelt, in his memorandum of February 26 to the Director of the Selective Service, said: "The crucial campaigns of this year will determine both the length of this war and its price in men and goods. We are well equipped in food and munitions, but their production has drawn over-heavily on our stock of manpower. It is time to strike a new balance. The armed forces have continuously adjusted their requirements to the minimum necessary to implement strategic balance . . . The present allocations of personnel to the armed forces cannot be further reduced, and there is a very real danger in our failure to supply trained replacements at the time and in the numbers required.

"Selective Service has not delivered the quantity of men who are expected . . . The Army will not reach its planned January strength until sometime in April, or even later if Selective Service continues to fall behind in its quotas. The nation's manpower pool has been dangerously depleted by liberal deferments and I am convinced that in this respect we have been overly lenient, particularly with regard to the younger men.

MILLION NON-FATHERS ON FARMS

"Almost five million men have been deferred for occupational reasons . . . Of almost a million non-fathers deferred in agriculture, over 550 thousand are under 26. Agriculture and industry should release the younger men who are physically qualified for military service.

"The present situation is so grave that I feel that the time has come to review all occupational deferments with a view to speedily making available the personnel required by the armed forces."

As a result of the tightening situation national Selective Service policy for agriculture is to review all agricultural deferments, scrutinizing with particular care those of registrants under 26 years of age, especially those 18 to 21. The objective of this policy will be to make certain that deferments on the basis of production and replaceability are fully justified. For agricultural workers local draft boards and county war boards are re-examining deferments in terms of "the war-units" which the deferred worker is handling on the farm.

In order to rate the productivity of a deferred worker the work which he is doing on the farm is measured in terms of the labor required by his crop and livestock enterprises, and in terms of the importance of his output to the war effort. On such a scale, for example, a milking dairy cow is rated as one unit. The national objective has been an average of 16 war units per man. In some areas, particularly in the South, draft boards have granted deferments

on the basis of 8 units. In other regions where farming is highly mechanized, as many as 40 units are required for deferment. In northern Illinois some draft boards are using 30 units as a criterion.

Selective Service local draft boards continue to have sole responsibility for the initial classification of agricultural registrants. In some states the cases of all registrants now deferred as agricultural workers, class II-C, are to be re-opened and those who in the judgment of the draft board and county war board are doing an adequate productive job and cannot be replaced will be granted further deferments of six months or less. Those who are not doing an adequate job or who can be replaced will not be further deferred. This re-examination applies particularly to those under 26 years of age.

Some registrants experienced in agriculture have returned to an agricultural occupation or endeavor in order to qualify for deferment. It has been the practice in the past to defer such registrants even though they may have been already classified as I-A. Recently local draft boards have been instructed not to defer such registrants as essential agricultural workers if they have already been mailed notice of reclassification into I-A. It is understood that in some states or in some boards an exception to this rule is being made in the cases of pre-Pearl Harbor fathers.

ADEQUATE DRAFT DATA NEEDED

Representatives of Selective Service report that agriculture is not doing as good a job as industry in filing information in advance with draft boards upon which decisions as to deferment can be based. It is pointed out that under the administrative procedures of Selective Service it is much more difficult to reclassify a worker from I-A to II-C than it is to classify him as II-C when his number comes up originally for call. County war boards, farmers, and farm employers can make a contribution to more effective handling of deferred workers by supplying draft boards as early as possible with adequate information on eligible farm workers.

Some questions have been raised as to the merit of the schedule of war units used as a basis for farm deferments. It is admitted that these schedules are necessarily arbitrary in the sense that they are rough, over-all measures. They do work, however, as a very practical, objective, and impersonal basis for deferment. Some modifications have been made in them to fit local situations. For example, in Illinois the rating for corn acreage has been reduced slightly and that for soybeans increased a little in order to give a three to two ratio between the two crops based upon the labor requirements for each crop in Illinois.

(Continued on Page 7)

Fourth War Loan Results

More Than Sixty Million E Bond Pieces Sold

Secretary Morgenthau announced on March 2 that the Fourth War Loan raised a total of 16 billion 730 million dollars which, although about 1.5 billion dollars less than sales in the Third War Loan, was almost 20 per cent in excess of the 14 billion dollar goal set for the drive. Reflecting the emphasis placed on sales of Series E Savings Bonds to individuals it is estimated that more than 60 million units of these were sold, compared with less than 53 million units in the Third War Loan, 33 million in the Second War Loan, and 19 million in the First War Loan. In dollar amount sales of Series E Savings Bonds exceeded the quota of 3 billion dollars, and were more than 700 million dollars greater than sales of Series E bonds in the Third War Loan. However, sales of other issues to individuals were substantially less than similar sales in the Third War Loan, due at least in part to reduced speculative purchases in the Fourth War Loan. Total sales of all issues to individuals were approximately equal in the two drives. Thus practically all of the reduction in sales to all classes of investors in the Fourth War Loan as compared with the Third War Loan can be accounted for by reduced sales to corporations and associations. Most of the decrease in sales to corporations and associations resulted from reduced purchases by insurance companies, dealers and brokers, and savings banks — although purchases by nonfinancial corporations were also somewhat less than in the Third War Loan.

DURATION OF THE DRIVE

The Fourth War Loan extended from January 18 through February 15 for the $\frac{7}{8}$ per cent certificates of indebtedness due February 1, 1945, the $2\frac{1}{4}$ per cent bonds of 1959-56, and the $2\frac{1}{2}$ per cent bonds of 1970-65. However, all sales of Series E, F, and G Savings Bonds and Series C Savings Notes cleared through the Federal Reserve Banks from

January 1 through February 29 were included in the drive totals. As in the Third War Loan, sales results included only sales to investors other than banks.

Total sales in the Fourth War Loan for the five states lying wholly or partly within the Seventh District compared favorably with sales for the nation as a whole, and exceeded the quota by a relatively larger margin than the nation as a whole. Moreover, total sales in Illinois and Michigan exceeded sales in the Third War Loan. However, except in the case of Iowa, this relatively good showing was primarily the result of above-average sales to corporations and associations. Although, except in Illinois, sales of Series E bonds were somewhat larger relative to the quota than in the nation, sales of other issues to individuals were substantially below the quota except in the case of Iowa. Consequently, in all states except Iowa total sales to individuals fell short of the quota to a greater extent than in the nation as a whole. Although sales to corporations and associations in Iowa did not compare favorably with those in the other Seventh District states, purchases by individuals were outstanding. Total sales to individuals reached 134 per cent of the quota and sales of Series E bonds 147 per cent of the quota. In part the relatively favorable showing by Iowa may reflect a seasonal peak in the net cash position of farmers—it will be remembered that in the April drive, when farm income was seasonally low, Iowa fared rather poorly.

INTER-DRIVE PERIOD SHORT

Failure of total sales of 16.7 billion dollars to reach the comparable figure of 18.3 billion dollars attained in the Third War Loan is to be explained primarily by the shorter length of time for the accumulation of funds between the Third and Fourth War Loans than between the Second and Third War Loans. The amount of sales counted as sales to investors other than banks but financed by bank credit, either directly or indirectly by bank purchases in the market of issues previously outstanding, does not appear to have been less than in the Third War Loan. On the three marketable issues the Fourth War Loan ended February 15, which was 136 days from October 2, the date on which the Third War Loan ended for marketable issues. This period was about 88 per cent as long as the 154 days between October 2 and May 1, when the Second War Loan ended on marketable issues. Correspondingly the 11.4 billion dollars of Government securities sold to corporations and associations in the Fourth War Loan represented about 88 per cent of the amount sold to these investors in the Third War Loan.

The close relationship between Fourth War Loan sales and the period over which funds accumulated is partly due to coincidence. Sales to savings banks were only about 84

TABLE I
NATIONAL RESULTS OF THE FOURTH WAR LOAN
(amounts in millions of dollars)

Class of Investor	Fourth War Loan			Third War Loan Sales
	Sales	Quota	Per Cent of Quota	
Individuals:				
Series E Savings Bonds	3,187	3,000	106	2,472
Other issues	2,122	2,500	85	2,905
Total individuals	5,309	5,500	97	5,377
Corporations and associations				
	11,421	8,500	134	12,936
Total, all investors	16,730	14,000	120	18,313

per cent of sales in the Fourth War Loan, to insurance companies about 82 per cent, and to dealers and brokers less than half of sales in the Third War Loan. Sales to state and local governments, however, were almost as great as in the Third War Loan, and to all other corporations and associations, largely nonfinancial business firms, were over 95 per cent of sales in the Third War Loan.

SPECULATION REDUCED

The sharp reduction in sales to dealers and brokers reflects the emphasis placed on reducing speculative purchases of securities during the drive, the amount of which was quite large in the Third War Loan. The reduction in speculation during the Fourth War Loan is also reflected in a smaller increase in loans for purchasing and carrying Government securities. Between September 8 and October 6, 1943 loans of weekly reporting member banks for purchasing or carrying securities increased 1.7 billion dollars, while in the period from January 19 to February 16, 1944 loans of weekly reporting member banks for purchasing or carrying securities increased by only 990 million dollars. The Treasury made a special request that bank loans for purchasing and carrying Government securities be restricted to loans which were to be repaid out of current income. Also subscriptions of dealers and brokers were limited to amounts they would be able to sell to nonbank customers for investment and to the amount required for investment of their own funds. Consequently, it is probable that a large part of the loans made in the Fourth War Loan will be liquidated in coming months from current income.

The reduction in speculation during the Fourth War Loan may not be fully reflected in the decreased amount of loans for purchasing or carrying securities. During the period of the Third War Loan commercial, industrial, and agricultural loans of the weekly reporting member banks increased from 5.8 billion dollars on September 8 to 6.3

billion dollars on October 6, an increase of 0.5 billion dollars. It is possible that some of this increase in commercial, industrial, and agricultural loans was for the purpose of purchasing or carrying Government securities. In contrast, during the Fourth War Loan commercial, industrial, and agricultural loans of the weekly reporting member banks increased very little. This may have been due to closer scrutiny by banks of the purposes for which loans were made or to reduced business needs for credit.

SALES TO INDIVIDUALS

Sales to individuals of issues other than Series E bonds were only 73 per cent of the 2.9 billion dollars sold in the Third War Loan, whereas sales of Series E bonds were 129 per cent of the 2.5 billion dollars of Series E bonds sold in the Third War Loan. The reduction in sales of other issues, which were mostly purchased by relatively wealthy investors, probably reflects in part the shorter period wealthy investors had to accumulate funds (136 days compared with 161 in the Third War Loan), in part seasonal factors, and in part the reduction in speculative purchases by individuals. The amount of Series E bonds that can be purchased by an individual in any one year is limited to 3,750 dollars at issue price. Thus, wealthy investors were able to purchase their full limit of Series E bonds during the Fourth War Loan and consequently purchases of other issues were reduced. However, in the Third War Loan many individuals had already purchased their full annual limit of Series E bonds and were forced to purchase other issues. This seasonal factor may be reflected in a rise in the average value of Series E bonds sold in the Fourth War Loan to around 53 dollars from about 47 dollars in the Third War Loan. The two weeks longer period in which sales of Series E bonds were counted, 60 as compared with 46 days, was also a factor responsible for larger sales of Series E bonds in the Fourth War Loan as compared with the Third War

TABLE II
FOURTH WAR LOAN SALES AND QUOTAS
STATES IN THE SEVENTH FEDERAL RESERVE DISTRICT
(amounts in millions of dollars*)

States	Grand Total			Individuals									Corporations and Associations		
				Total			Series E			Other Issues					
	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota
Illinois	1,209	905	134	322	368	88	204	201	101	117	167	70	887	537	165
Indiana	292	233	126	117	125	93	81	75	108	36	50	72	176	108	163
Iowa	229	177	129	123	92	134	82	56	147	41	36	114	106	85	125
Michigan	585	440	133	236	253	93	184	165	111	53	88	60	349	187	187
Wisconsin	336	258	130	100	113	89	70	66	106	30	47	64	236	145	163
Five state total	2,651	2,013	132	898	951	94	621	563	110	276	388	71	1,754	1,062	165

*Amounts are rounded and will not necessarily add to totals.

Loan. In periods between drives sales of Series E bonds tend to average over 150 million dollars per week.

With allowance for all factors, the fact that total sales to individuals in the Fourth War Loan were only slightly below those of the Third War Loan represents a substantial achievement, for which much credit is due the War Finance Committees.

PARTICIPATION BY BANKS

Although commercial banks were excluded from the Third and Fourth War Loans, this does not mean that the banking system did not purchase Government securities in these periods. At the close of the Third War Loan commercial banks were permitted to purchase approximately 3.2 billion dollars of Government securities, divided about equally between certificates of indebtedness and 2 per cent bonds. In addition there was an increase of 200 million dollars in the amount of Treasury bills outstanding, practically all of which was absorbed by the banking system. In the Fourth War Loan commercial banks with savings deposits were permitted to purchase a total of approximately 620 million dollars of 2½ per cent and 2¾ per cent bonds, and Series F and G Savings Bonds. Banks have also made substantial purchases of Government securities in the open market during War Loans as institutional and corporate investors liquidated previously outstanding issues in order to subscribe to the new issues offered during the drives.

However, it is obvious from Table III that the Treasury has been financing its deficit to a decreasing extent by the direct or indirect sale of securities to the banking system. Estimates of the amount of Government securities held by commercial banks at the end of each month are published in the *Federal Reserve Bulletin*. These estimates, together with amounts held by the Federal Reserve Banks, are shown in Table III for month-end dates preceding and following the First, Second, and Third War Loans. Rough estimates, derived from Government security holdings of the weekly reporting member banks, are also included for dates approximating the end of December 1943 and February 1944.

ESTIMATED INCREASE TENTATIVE

It should be emphasized that the estimate of the increase in Government security holdings of commercial banks during January and February is highly tentative. Although, in the monthly periods including each of the three preceding War Loans, increases in the Government security holdings of the weekly reporting banks were relatively quite similar to the increase for all commercial banks, their experience in the Fourth War Loan may not be so typical. In view of the fact that all but a small part of the increase in Government security holdings of the banking system was acquired in the market rather than by direct subscription from the Treasury, and in view of the relatively small sales of 2¾ per cent and 2½ per cent bonds during the Fourth War Loan, as compared with the sales of 2 per cent and 2½ per cent bonds in the Third War Loan, it is possible that the weekly reporting banks acquired a larger share of the Government securities acquired by all commercial banks

TABLE III
WAR LOANS AND THE BANKS
FEDERAL RESERVE AND COMMERCIAL BANK
GOVERNMENT SECURITY HOLDINGS
(millions of dollars)

Date	Federal Reserve Banks	Commercial Banks	Total Banking System*
First War Loan:			
November 30, 1942	5,399	36,700	42,100
December 31, 1942	6,189	41,340	47,530
Increase	790	4,640	5,430
Second War Loan:			
March 31, 1943	5,919	44,160	50,080
May 31, 1943	6,222	52,840	59,060
Increase	303	8,680	8,980
Third War Loan:			
August 31, 1943	9,088	56,000	65,090
October 31, 1943	9,354	62,600	71,950
Increase	266	6,600	6,860
Fourth War Loan:**			
December 31, 1943	11,543	60,800	72,300
March 1, 1944	11,624	65,300	76,900
Increase	81	4,500	4,600

*Amounts are rounded to nearest 10 million dollars in First, Second, and Third War Loans, and to nearest 100 million dollars in Fourth War Loan.

**Preliminary estimates by Federal Reserve Bank of Chicago.
Source: *Federal Reserve Bulletin*.

in the Fourth War Loan than was the case in the Third War Loan. In that event, the increase in commercial bank holdings of Government securities during January and February was less than the estimated 4.6 billion dollars shown in Table III.

Part of the sales of securities described as sold to investors other than banks in each of the War Loans was made possible by bank absorption of Government securities previously outstanding in the hands of private investors, which enabled these investors to acquire new issues offered by the Treasury during the War Loans. Since most bank purchases of securities in the open market occur during War Loans, rough estimates of the amount of funds so provided by the banking system can be obtained by subtracting from the total increase in the banking system's Government security holdings during the monthly periods including each War Loan the amount of Government securities allotted directly to the banks and not counted in the sales of securities to investors other than banks. Government securities sold directly to banks amounted to 5.1 billion dollars in December 1942, 5.9 billion dollars in April and May 1943, 3.4 billion dollars in September and October 1943, and 620 million dollars in January and February 1944. These amounts subtracted from the total increase in the holdings of the bank-

ing system in the months including each of the War Loans indicates that funds supplied private investors by bank purchases of securities in the market amounted to approximately 350 million dollars in the First War Loan, 3.1 billion dollars in the Second War Loan, 3.4 billion dollars in the Third War Loan, and roughly 4 billion dollars in the Fourth War Loan. Again it should be emphasized that the estimate for the Fourth War Loan is only tentative.

NON-BANK INVESTORS ACQUIRE BONDS

In addition to the acquisition of securities in the market banks also made loans for purchasing or carrying Government securities, thereby enabling investors other than banks to acquire a larger amount of Government securities. In the months including each War Loan, the weekly reporting member banks increased their loans for purchasing or carrying securities by 143 million dollars in the First War Loan, 576 million dollars in the Second War Loan, 1.1 billion dollars in the Third War Loan, and 782 million dollars in the Fourth War Loan. It is probable that the bulk of this increase in each War Loan was for the purpose of purchasing or carrying Government securities. Of the increase in security loans during the Fourth War Loan 721 million dollars, or 92.2 per cent, represented loans for the purpose of purchasing or carrying Government securities.

To obtain the net absorption of Government securities not financed by bank credit it is also necessary to make allowance for the redemption of tax notes and savings bonds during the periods in which sales of these issues were included in the War Loan totals. Redemptions of tax notes are primarily for the payment of taxes and tend to be particularly heavy in months of seasonally heavy tax payments, as in the case of the First and Third War Loans (see Table IV).

When allowance is made for the absorption of previously outstanding securities by the banking system, the increase in bank loans for purchasing or carrying securities, and the redemption of tax notes and savings bonds, it would appear that the net purchases of Government securities by investors other than banks amounted to approximately 6.4 billion dollars in the First War Loan, 9.1 billion dollars in the Second War Loan, 12.2 billion dollars in the Third War Loan, and 11.1 billion dollars in the Fourth War Loan.

EXCHANGE OFFERINGS

In addition to new money raised during the Third War Loan, the Treasury has arranged for the refunding of a large amount of maturing issues. On February 1 a maturing issue of $\frac{1}{8}$ per cent certificates of indebtedness amounting to 2.2 billion dollars was exchanged into 13-month Treasury notes maturing March 1, 1945, and bearing interest at the rate of 0.9 per cent per annum. On March 2 the Treasury announced that an exchange offering amounting to 4.7 billion dollars would be made for seven issues of securities that mature or have been called for payment between March 15 and June 15. The issues to be refunded include 1.5 billion dollars of Treasury bonds due April 15; 931 million

dollars of Treasury notes maturing March 15 and June 15; 930 million dollars of Federal Farm Mortgage Corporation Bonds due March 15 and May 15; 779 million dollars of Home Owners' Loan Corporation Bonds due May 1; and 571 million dollars of Reconstruction Finance Corporation Notes due April 15.

Issues offered in exchange for these securities include $4\frac{1}{2}$ year notes, and $2\frac{1}{4}$ per cent and $2\frac{1}{2}$ per cent bonds. The notes are dated March 15, 1944, will mature on September 15, 1948, and will bear interest at the rate of $1\frac{1}{2}$ per cent per annum. The two bond issues are identical in every respect with the $2\frac{1}{4}$ and $2\frac{1}{2}$ per cent bonds offered during the Fourth War Loan. Nonbank investors were given the option of exchanging the maturing issues into any of the three issues offered. However, exchanges by commercial banks accepting demand deposits were limited to Treasury notes.

With the completion of this large refunding operation the Treasury will have no large amounts of maturing issues for the balance of the calendar year, except for Treasury bills and certificates of indebtedness. There will be over 20 billion dollars of certificates of indebtedness to be refunded between now and December 31. The dates that these certificates will come due and the amounts involved are as follows: 5.3 billion dollars on April 1; 1.7 billion dollars on May 1; 2.5 billion dollars on August 1; 4.1 billion dollars on September 1; 3.5 billion dollars on October 1; and 3.5 billion dollars on December 1. Other issues maturing or callable in 1944 amount to about 2 billion dollars.

TABLE IV
ESTIMATED NET ABSORPTION OF GOVERNMENT SECURITIES BY OTHERS THAN BANKS IN EACH WAR LOAN
(millions of dollars)

	First War Loan	Second War Loan	Third War Loan	Fourth War Loan
Reported sales to others than banks	7,590	13,085	18,313	16,730
Deduct:				
Increase in holdings by banking system not reported as sold to banks	350	3,100	3,450	4,000
Increase in weekly reporting banks' loans for purchasing or carrying securities	143	576	1,148	782
Redemptions of tax notes and savings bonds:				
Tax notes	631	210	1,239	503
Savings bonds	55	134	233	373
Total deductions	1,179	4,020	6,070	5,658
Net absorption by others than banks not financed by bank credit*	6,400	9,100	12,200	11,100

*Amounts have been rounded to nearest 100 million dollars.

Note: Increase in holdings by banks and bank loans for purchasing or carrying Government securities cover monthly periods of December 1942 for First War Loan, April and May 1943 for Second War Loan, September and October 1943 for Third War Loan, and January and February 1944 for Fourth War Loan.

Highways In The Sky

Seventh District Important Center in Air Transport Industry

Operating with about 55 per cent of normal flight equipment, fewer domestic routes and schedules, and two-thirds of peacetime personnel, the country's airlines are nevertheless setting remarkable passenger, mail, and express records, and in the aggregate are showing profits for the first time since the industry's inception. These results have been accomplished by the introduction of numerous operating efficiencies, such as improved maintenance methods, and by the utilization of a much higher percentage of plane capacity.

A considerable expansion of air transportation is certain to take place upon the termination of the war, with the plane making serious inroads into the other modes of transportation. However, the basis upon which the plane will compete with these other forms must be an economic one; relative cost plus convenience will be the determining factors. The form and extent of air expansion are dependent upon technological improvements, lowered costs, and improved ground facilities, as well as upon the competitive situation that evolves, both at home and in the international field.

SCOPE OF THE INDUSTRY

Airlines are common carriers operating planes on regular schedules over certified routes, using the airways maintained by the United States Government, and carrying mail, passengers, and freight. Seventeen principal airlines are now serving approximately 225 cities in continental United States, and two smaller lines have routes connecting islands with the mainland. Three of the main lines, American, Transcontinental and Western Air, and United are transcontinental in scope, and these together with Eastern Airlines make up the "Big Four" in the domestic air transport industry, carrying about 80 per cent of the total domestic traffic. Two Canadian lines are also licensed to operate in the United States, Canadian-Colonial Airways, and Trans-Canada Airlines, Incorporated.

An extensive system of airports is an important segment of the domestic air transport industry. There are two principal types of airports used by the airlines, municipal and commercial, with the present trend toward increased municipal ownership and operation. Airway facilities — revolving beacon lights, radio range and broadcast stations, weather teletype service, emergency fields — are almost wholly sponsored by the Government. On foreign routes, however, the carriers themselves must assume a large portion of the establishment and maintenance of such facilities.

In addition to the airlines flying within the United States, the country has two foreign carriers, Pan American Airways and the newly organized and comparatively small American Export Lines, with the latter engaged principally

in air express. The comprehensive system of Pan American has world-wide coverage, reaching important cities in Europe, Asia, Africa, and many sections of Central and South America.

AIRLINES IN THE SEVENTH DISTRICT

Any airline map of the United States shows a concentration of air activity in certain sections of the country, with the Seventh Federal Reserve District states of Illinois, Indiana, Iowa, Michigan, and Wisconsin encompassing important air centers in this vast network of lines. Chicago is the third most important airline center in the nation, New York and Washington reporting a greater air traffic volume. Chicago and Detroit are two of the nine centers of air activity that normally account for more than one-half of the country's air passengers, the others being New York, Washington, Boston, Los Angeles, Miami, San Francisco, and Cleveland.

In peacetime eight different airlines enter the Chicago area. Detroit, South Bend, and Indianapolis each receive service from three lines, while two airlines serve Des Moines, Milwaukee, Peoria, Springfield, Grand Rapids, and Flint. The district airline network includes all of the major lines and many of the minor ones.

Passenger traffic is by far the most important airline activity in the Seventh District, as in the nation. In 1943 passenger revenues made up 69 per cent of the total airline income; mail, 21 per cent; express, 8 per cent; and all other, 2 per cent. In the 1930-1940 decade the Chicago Municipal airport handled about 22 per cent of all air passenger travel in the country, and estimates of future air travel in the area are based on the assumption that this proportion will continue. A group of Chicago planners has estimated that by 1945 the number of passengers handled at Municipal should exceed two million persons, and that by 1950 this figure may be doubled. A national total of eleven and twenty-two million passengers respectively are estimated for these years.

In the kinds of express handled in the years prior to Pearl Harbor, newsphotos, legal papers, electrotypes, bank securities, motion picture film, wearing apparel, printed advertising, magazines, electric products, automobile supplies, and miscellaneous machinery were among the most important items carried. Now the emphasis is upon war materials, and it is not uncommon to see motorized equipment, guns, munitions, and other such products being loaded at various airports in the Seventh District and nation. Cost is a secondary object during wartime, and planes have been stripped of all unnecessary appendages to allow for the carriage of comparatively large and bulky items, many of which would not normally be moved by air.

There is much speculation about the coming "airlines center" of the country, and virtually every major city in the nation is planning to use larger and better equipped airports to attract airlines in the postwar era. Because of its central location, the district is an important transfer center, especially for cross-country flights. While New York and Washington are usually either the beginning or end of a flight, passengers at Chicago transfer for every point throughout the Middle West and for all points on the West Coast.

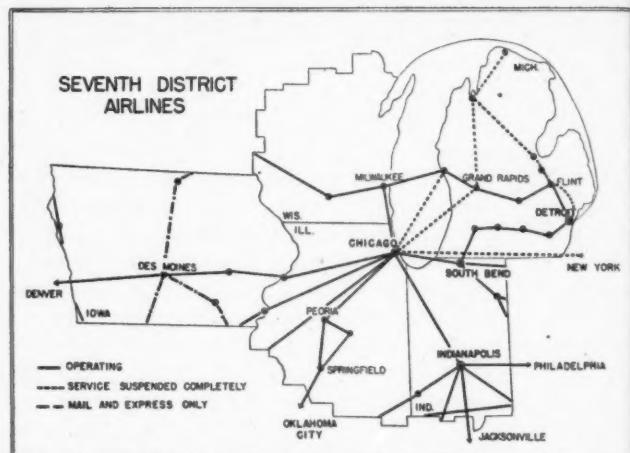
An airport plan adopted by Chicago officials contemplates 12 publicly-owned airports, as against the present 3. It proposes that the states in the region of Chicago-Illinois, Indiana, Wisconsin — should aid in the development of another 30 airports; and still another 30 are expected to develop entirely with private funds to be used mostly by students and other civilian flyers. Detroit, Des Moines, and Indianapolis also have extensive postwar airport plans, and Gary, Indiana is planning to construct her first major airport.

EFFECT OF WAR ON THE INDUSTRY

Air transportation in the United States has been radically affected by World War II. The airlines operated under strict War Department control from December 13, 1941 to March 1, 1944 when the Civil Aeronautics Board assumed partial administration over routes, schedules, and allocation of airlines' planes released from Army service. The War Department, however, retains all other emergency powers over airlines.

A system of priorities for air travel was established in January, 1942. Another war measure affecting the airlines was the elimination by them of certain routes and schedules. All schedules that would not carry enough persons traveling on missions essential to the war program to justify their continuance have been cancelled. In addition, short-haul passenger service ceased where trains or buses offered reasonable substitution, and recreational travel was virtually abolished. About 25 of the nation's smaller cities have lost airline service entirely, probably for the duration of the war. Other cities receiving the service of several lines and having extensive schedules have lost one or more of these lines and have had their schedules reduced.

Requisitioning of planes from the airlines for use in Government service was another of the steps taken after Decem-



Source: Civil Aeronautics Board, "Annual Report," 1942.

ber 7, 1941 that seriously affected the airlines. In most of 1942 and all of 1943 the lines were operating with only 175 planes, about half their former number. A few of the requisitioned planes have since been returned. As a result of this reduction in available passenger-carrying equipment, several of the carriers have inaugurated limited operations with single-engine planes in order to continue mail and cargo services.

Though normally a pure civilian service, the air transport industry today has assumed many of the characteristics of a military auxiliary. Both the Army and Navy have entered into contracts with the carriers for the performance of services far beyond those rendered under certificates of public convenience and necessity held by the lines. In some cases the volume of contract operations is exceeding that of scheduled air service. In June of 1943 these contracts covered the entire United States, the North and South Atlantic, the Pacific, Alaska, Brazil, and Panama. The lines are carrying men and materials to all battlefronts, with the foreign extensions of the airlines performing some quite spectacular feats. Bases were built in jungles, in deserts, and in Alaska. There is no division of foreign and domestic airlines in wartime, as the domestics are carrying on extensive foreign operations.

The airlines today are expanding in all directions. Commercial operations within the country alone, exclusive of foreign extension activities, are making great strides. Domestic revenue-passenger miles flown in 1943 exceeded 1.5 billion, as against 1.4 billion in 1941. Express ton-miles flown in 1943 exceeded 15 million compared with 5 million in 1941. Mail ton-miles flown in 1943 totaled more than 37.5 million, while the 1941 total was 13 million ton-miles. When foreign operational figures are added to these results the record is remarkable.

How have the lines been able to accomplish this record — flying more passenger, mail, and express miles than ever before over both domestic and foreign routes — while operating under equipment and personnel restrictions? They have done so because of the further use of several impor-

COMMERCIAL OPERATIONS OF DOMESTIC AIRLINES WITHIN THE UNITED STATES						
Kinds of Traffic	1939	1940	1941	1942	1943	1944*
Passenger**	67.7	104.1	136.9	139.8	150.5	165.0
Mail	8.6	10.0	12.9	21.1	37.6	38.0
Express	2.7	3.5	5.2	11.7	15.8	17.5

*Estimated.

**Passenger ton-miles computed on the assumption that the average weight of a passenger plus the allowable 40 pounds of baggage would equal 200 pounds.

Data for 1939-1943 from Civil Aeronautics Board.

tant operating efficiencies: faster turn-around and elimination of unprofitable stops; utilization of a higher load factor, the planes now being loaded to over 90 per cent capacity as against the peacetime 60 to 70 per cent; more intensive utilization of equipment; changing departure time to decrease layover at terminal airports; and improved maintenance methods.

THE INDUSTRY IS PROFITABLE

The profit situation in the air transport industry has shown great improvement during the current period of war-inflated travel and transport. In 1941 more than one-half of the companies reported annual deficits from operations, with most of the losses appearing among the smaller companies where greater dependence was upon air mail revenues than upon passenger business, and where routes were less favorable than those of rival companies. In 1942 and 1943 all of the companies, large and small alike, showed a much improved financial position. Over-all 1942 operating profits were excellent, and 1943 returns showed wide year-to-year gains. Though 1943 operating profits in some cases doubled 1942 returns, over-all net income after taxes was slightly lower than the 1942 peak year. American Airlines reported for the nine months ended September 30, 1943 a profit of 2.0 million dollars, as compared with 2.4 million in 1942; Transcontinental and Western Air reported for the same nine months period a net profit of 1.29 million dollars, as compared with 1.34 million in 1942. Other companies followed a similar trend.

The tax burden has become an increasingly important limiting factor in the industry's net earning picture, as the companies for the first time are subject to the Excess Profits Tax. In 1944 earnings are expected to be slightly lower than in 1943. Reduced equipment, passenger fares, and Government mail rates are also having an adverse effect on the profit curve, but the industry will remain relatively profitable for the duration.

Companies have already begun to acquire new capital to finance the anticipated postwar expansion in the industry. Braniff, Northwest, and United have new stock issues on the market, while TWA seems to favor the use of equipment trust certificates as a means of financing expansion.

PLANNING FOR THE FUTURE

Air transport, perhaps the outstanding "growth" industry of the future, looks forward to a period of increasing acceptability and expanding business after the war. This expansion, however, will provide an outlet for only a very small number of new planes relative to the tremendous aircraft building capacity of the nation. Five years after the war, probably not more than 1,500 planes will be used in domestic air transport, or less than one week's production of bombers at present rates.

With passenger fare reductions in recent years lessening the differential between airline and railroad travel, and with

the construction of larger and better airliners and airport facilities, airlines will continue to improve their competitive position in the passenger field. Executives of some of the major lines are now predicting that the postwar world will see the airlines carrying as much as 80 per cent of the first-class Pullman passenger business in a long-run five-to-ten year period of postwar expansion. This estimate may be overly optimistic, but a great increase in air passenger business will undoubtedly be evidenced, though certainly not without sharp railroad competition.

Air mail revenues, still one of the mainstays of the industry, though relatively less important than in former years, are certain to increase in spite of recent Government rate reductions to the airlines. In this field the airline operators will probably take over most of the first-class mail sometime after the war.

Although express business accounted for only 3 per cent of domestic prewar revenues, exigencies of war have made this division of the industry of major importance. The airlines operating at a load factor in excess of 90 per cent are transporting vital war materials in large volume. While the cost factor in air transport is little considered during wartime, it assumes a real significance in times of peace. Air rates at present are high — almost 60 cents a ton-mile as compared with less than 11 cents for the railroads. Airline operators may be able to reduce the rate to 45 cents, but this is still too high to be a real threat to the railroads. Thus airlines may be ruled out for some time as competitors in carrying many bulk items because of the high costs involved. In the past, air freight has consisted mostly of perishables and high-value merchandise, and it is in this group that the lines may expect their greatest expansion. They may also make some inroads in the railroads' less-than-carload business, though the trucking industry is also being attracted to this field.

FARM LABOR DRAFT

(Continued from inside front cover)

It is too early to predict how extensive will be the effect of tightening deferments upon agricultural production in the Seventh Federal Reserve District. It is certain, however, that the result of the new policy will be to take substantial numbers of workers from the farms of the nation and the district. From the farmer's viewpoint this may appear to be too drastic a step, but it is probable that in the larger view our needs for men to win the war in the shortest time and at least cost in human lives outweigh the losses in agricultural production resulting from some retrenchment as a result of increased labor shortages on the farm. Farmers can make an intelligent contribution by taking every step within their power to insure that the most essential workers are deferred and that the least essential men are made available to Selective Service.

Feed Supplies Under Strain

Situation Forcing Adjustments in Livestock Numbers and Feeding

Record-breaking livestock production and heavy feeding per animal in the past months have put a heavy strain on the nation's grain economy in spite of exceptional yields and greatly increased feed production. Currently the feed situation has tightened and substantial adjustments in farm production are called for in order that the available supplies may yield a maximum of feed.

On January 1 of this year the total of grain-consuming livestock units was up 7 per cent from last year, commercial feed supplies were up 8 per cent, but this was more than offset by the reduction in feed grain supplies, which were down 4 per cent, presenting a real check to livestock expansion.

One of the most critical aspects in the situation is the unequal geographic distribution of feed supplies in relation to livestock needs. Seventh District states are, however, relatively well situated with regard to supplies of feeds compared to other sections of the country. The current season is expected to see a substantial reduction in total livestock on farms, particularly in hogs. A drastic retrenchment in livestock operations next season, October 1944 to September 1945, will be required if yields of feed grains during the coming crop year are only normal.

LIVESTOCK POPULATION BREAKS ALL RECORDS

The most significant factor in the feed situation has, of course, been the tremendous expansion in the nation's livestock industry. Beginning from a low point in farm inventories of livestock as of January 1, 1941 the total numbers have expanded to the beginning of this year by nearly 30 per cent. The changes for some species have been even more striking. There were more than half again as many hogs on farms this year as there were three years ago and well over one-third more chickens. The total for all cattle was up 15 per cent, with an increase of 8 per cent shown for milk cattle and a rise of nearly 20 per cent shown for all other cattle. Declines from three years ago were shown for horses and mules and for sheep.

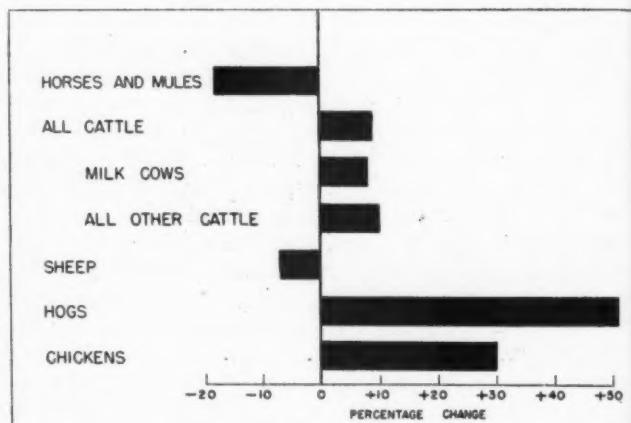
In the five states lying in whole or in part in the Seventh Federal Reserve District the rate of increase over the three-year period in hogs was substantially the same as the rise for the nation. Chickens had increased by 30 per cent, milk cows by 8 per cent, while the rise in cattle other than milk cows amounted to 10 per cent. Horses, mules, and sheep showed greater declines than for the nation.

RATES OF FEEDING HEAVY

These tremendous expansions have, of course, added materially to the amounts of feed needed to keep animals in production or to finish them for the market, but simply to gauge the demand for feeds in terms of livestock numbers

PERCENTAGE CHANGE IN LIVESTOCK NUMBERS

Five States of the Seventh Federal Reserve District
(January 1, 1941 to January 1, 1944)



Source: Bureau of Agricultural Economics, Crop Reporting Service.

tells only a part of the story. In addition to these extra mouths to feed producers generally during the last two seasons were feeding these animals more heavily than normal. This has been particularly true of hogs, chickens, and milk cows.

RECORDS IN FEED PRODUCTION ALSO BROKEN

Fortunately the country has been blessed by a series of exceptional yields for feed crops. Had this not been true, livestock production on the gigantic scale achieved in the past year would not have been possible. Corn supplies available for feed during the current season are more than 50 per cent above the average of the period 1935-1939. Supplies of oats are greater by about 20 per cent. Barley supplies are nearly 60 per cent greater than in the prewar period. The amount of wheat for feed available and being consumed in the current feeding season is three to four times what it was in the five-year prewar period. Total supplies of all feed concentrates including grains, mill-feed by-products, and high-protein concentrates are over 40 per cent above supplies in the prewar period, although only 20 per cent above the available supply three years ago.

At the beginning of the war the nation had a billion bushels of grain supplies above normal. Production for the war has used up this reserve and now livestock producers must depend upon what is produced currently.

A measure of the relationship between feed disappearance and the number of livestock on farms is obtained

by converting all the different species of livestock into one common measure on the basis of the feed requirements of each species and by converting all feeds in terms of tonnage. On this basis the disappearance during the feeding season is measured in terms of tons per animal unit. On this kind of a measure comparisons may be made with the disappearance per animal unit in past years. A low point was reached in the 1934-35 season when only 0.66 tons was the disappearance per animal unit. In 1939-40 the figure was 0.80 tons. Since then the disappearance of feed per animal unit has risen rapidly until last year, the 1942-43 season, it amounted to 0.97 tons, an all-time high record. It would appear from such figures as are available now that in the current season the disappearance per animal unit will drop somewhat below this record of last year, but will be equal to or above the relatively high level attained in the last two previous seasons.

UNEQUAL DISTRIBUTION OF FEEDS CAUSES CRISIS

The feed situation has developed into something of a crisis, in part because of the maldistribution of the feed supplies. In general the areas where feed grain surpluses are normally produced have been the most favorably situated. This is in part due to price ceilings on feed grains, particularly corn, which have tended to make the marketing of grain through hogs and poultry more profitable than by selling the grain for cash. Grain which normally moved to feed deficit areas has tended to remain and be used near the source. Dairy feed payments, smaller pig crops in 1944, and a lower hog-corn price ratio resulting in feeding to lighter finished weights, will tend to correct some of these maladjustments. Supplies at the beginning of this year were materially below a year ago in the North Atlantic and New England states and in some of the parts of the country struck by drought. The least reduction in supplies

was shown for the Corn Belt east of the Missouri River. In a few southern states supplies were actually larger than they were a year ago.

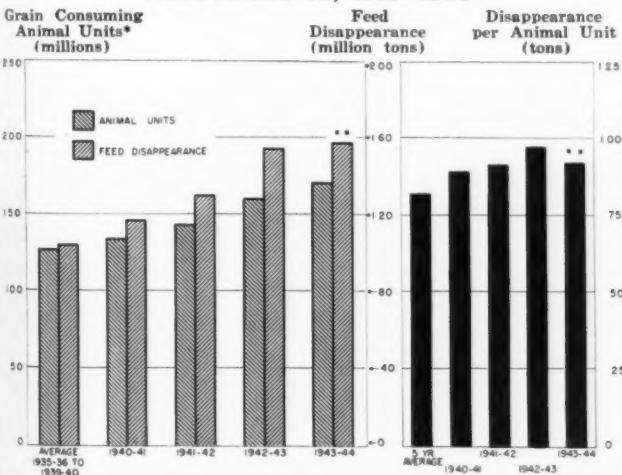
It is expected that probably 500 million bushels of wheat will have been used for feed by the end of June of this year. Between 100 and 150 million bushels of this will have been imported. Box cars have been sent into Canada to bring wheat and other feed into the country during the period while the lakes are closed this winter. It is expected that 40 million bushels will have been brought in by the middle of May. Because of the heavy drain on wheat stocks for feed and for production of alcohol, it appears that the 1943 carry-over of wheat of 618 million bushels will have been reduced by the end of June this year to approximately 300 million bushels. This rapid disappearance of wheat stocks has caused considerable alarm in some quarters. It is thought that flour and bread rationing may become necessary and the OPA is reported to have drawn plans to meet this possible development.

LIVESTOCK ADJUSTMENTS IMPERATIVE

In view of the tightening feed situation, certain over-all adjustments are called for in farm enterprises. On hogs the best advice appears to be to maintain numbers at the level of early 1942 and to feed them to more normal weights. For beef cattle the situation seems to indicate a program of reducing numbers by three to five million head at the end of the coming pasture season in order to bring numbers down to about the level of January, 1942. Advisers are suggesting the use of minimum amounts of grain, short feeding, and maximum utilization of roughage and pasture. In poultry the adjustment should take the lines of eliminating nonproducers or poor layers and reducing the production of broilers. In the dairy enterprise further culling may be needed in order to save the grain for efficiently producing animals.

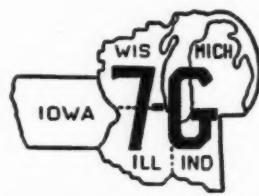
The feeding season of 1944-45 appears to hold the prospect of a little more protein concentrates available if soybean goals are met, but less grain supplies, which will mean a slightly larger proportion of protein concentrates in the total feeds instead of the heavy concentration on grains which has prevailed while the feed reserves were being used up. Production goals for the 1944 planting season call for an expansion of corn acreage from 96.8 million in 1943 to 100 million acres. Reductions in the other principal feed crops, oats, barley, and grain sorghums, are asked. If farmers plant according to these suggestions and the yields this year are only normal the farms of the nation would be faced with the necessity of reducing livestock population and production to a level about 20 per cent below January 1 of this year in order to bring livestock in line with feed supplies. The dairy feed payments program and the drops since last fall in the hog-corn and beef-corn price ratios will encourage at least a part of this adjustment.

LIVESTOCK NUMBERS AND FEED CONCENTRATES DISAPPEARANCE, 1935 - 1944



Source: Bureau of Agricultural Economics.

SEVENTH FEDERAL



RESERVE DISTRICT

